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Rural Migrants: On the Fringe of the City, a Bridge to the Countryside

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### China Analysis

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# China Analysis

## Les Nouvelles de Chine

This section, prepared by the Asia Centre ([www.centreasia.org](http://www.centreasia.org)), draws mainly on the press in Chinese, aiming to reflect the point of view of the People's Republic of China on international questions and issues related to Greater China.

## Social security law in for further horse-trading

**Analysis by Anne Rulliat based on:**

- Wang Chen, "Social insurance law under spotlight," *Caijing*, 2 August 2010.
- Zheng Bingwen, "Social insurance law should be examined carefully," *Caijing*, 2 August 2010.
- Wang Shiyu and Wang Bihua, "Social insurance law adopted with compromises," *Caijing*, 7 November 2010

Additional information from articles in *People's Daily*, *Xinhua*, *Workers Daily* and *Caixin*.

Since 1994, the Chinese government has been seeking to adopt a social insurance system (*shehui baozhang zhidu*). The aim has been to move from the care that had traditionally been provided by the family and then the work unit, to a system covering the entire population. The government has set 2020 as the target year to achieve this. As of now the system is fragmented and unequal, varying according to workers' schemes and provinces. A clear law would constitute a major step forward and remove the many inequalities.<sup>(1)</sup> That, in fact, was the objective of the social insurance law aims to do (*shehui baoxian fa*) finally adopted after its fourth reading on 28 October 2010.<sup>(2)</sup> It is to enter into force from 1 July 2011.

While there has been widespread agreement on the need for such a law, there has also been great difficulty in the way of its concretisation. In August 2010, *Caijing* reflected the divergences and clashes of interest revealed during the 3<sup>rd</sup> reading of the text.<sup>(3)</sup> The National People's Congress Standing Committee has amended it at each reading – the first was back in December 2007.

The Chinese Government faced difficulties that were bound to occur in formulating a social security system from a disparate set of elements. It raised tensions similar to those seen during the formulation of social security systems in Europe (such as between civil servants and private sector workers, and over financing and collection of funds). But the government also needed to anticipate difficulties linked to changes in society. Thus, the ageing of the population, especially in the big cities, had to be considered

along the lines of the current European social security systems.

*Caijing* also notes some discord over the law, delay in whose adoption stemmed from differences among ministries and between the central and local authorities, even though the issue was deemed a priority.<sup>(4)</sup> The law's adoption does not point to a resolution of disputes, which the government will have to deal with eventually through regulatory means.

The choice of entity charged with coverage has led to discord among ministries. This is a major issue as the entire system's financing depends on it. As of now, China's social security system is a mosaic with marked differences between cities and provinces, rural and urban areas. All too often, the institutions overseeing subscriptions are the same ones in charge of disbursements. Nationwide consistency so as to ensure equity is thus imperative. *Caijing* sounds upbeat that the law had incorporated the principle of "universal coverage" (*tongyi zhengshou*), ending the duplication of collections in the form of subscriptions set by fiscal authorities (*shuiwu bumen*) as well as by those in charge of social security (*shebao bumen*). No doubt this is

1. "University professor says lack of an equitable social security system heightens inequality," *Xinhua*, 23 August 2010.
2. The full text is available online ([http://www.npc.gov.cn/npc/xinwen/2010-10/28/content\\_1602435.htm](http://www.npc.gov.cn/npc/xinwen/2010-10/28/content_1602435.htm))
3. The text was then back with the Human Resources and Social Security Ministry. The background and the amendments made at each reading can be seen on this Chinese language site: <http://www.51labour.com/zhuanli/shebao/>.
4. "Supreme lawmaking body sets up an office for social laws; social insurance law to be adopted speedily," *Renmin Ribao*, 27 September 2010.

a major advance but it should be noted that a single administration charged with coverage has not yet been set up. The 1999 reform had left it to provincial governments to decide whether the fiscal authorities or those overseeing social security would be in charge of collections. Logic would have dictated that collections be left to the social security institutions. But they lacked sufficient means to do so and local governments preferred to hand over the task to fiscal administrations which could count on coercive tools. *Caijing* journalist Wang Chen wonders which administration would prevail should a single agency be given charge of collections. He says neither the Finance Ministry nor the Human Resources and Social Security Ministry want to cede control.

The social security services have several advantages. Job service centres act as social security agencies managing (*tuoguan*) the insurance accounts. In general, a counter devoted to social contributions functions in these centres, servicing private entrepreneurs (*getihu*) and those in flexible jobs (*linghuo jiuyezhe*). As the government's main mission is to widen the social security net to more people, such independent workers would seem to be more important for the agencies concerned, given that employees in enterprises are already well integrated in the system.

Those advocating subscription coverage through local level fiscal services favour the fiscalisation of social security resources (*feigaishui*). They hold that only fiscal administrations have sufficient tools to deal with collection difficulties.

An agreement was reached on coverage by a single administration; but it is the central government that needs to make the choice. The *Caijing* journalist lays out clearly the pros and cons of each possible choice but the difficulties in social contribution collections that agencies face bear witness in part to the deficiencies of a system under construction as also the weak rule of law. Rules and regulations exist but fail to make a dent. Following the passage of the law, it should be possible to use courts to enforce collections, thus easing the situation to some extent.

More conflicts among administrations came to light during deliberations on the law. For instance, initially urban and rural social security systems were to have been merged: this has been done for retirement benefits, but health insurance remains separate. Now health insurance in rural areas (*xinxing nongcun hezuo yiliao*) is placed under the Health Ministry (*weisheng bumen*), while that in cities is to be managed by social insurance agencies (*shebao bumen*). The law evades the issue while seeking to encourage the

two administrations to adopt a system allowing health insurance coverage independent of the place in question (*yidi jiuyi*).

And intra-administration feuds are not the only difficulty plaguing the law. There has been a debate on assessment levels. The level for retirement benefits remains a major stumbling block: the law failed to set a single level. Initially, while the law was being drafted, the intention had been to set assessment levels for each risk covered. Employers' contributions for illness, unemployment and work-related accidents fixed at 6 percent, 2 percent and 1 percent respectively were generally well received. Pension contribution set at 20 percent, was deemed a heavy burden on enterprises.<sup>(5)</sup> Moreover, employees too have to make 8 percent pension contribution on their part.

Most experts and senior officials who took part in drafting the law feel the retirement benefit contribution set at 20 percent is too high. It imposes too high a burden on enterprises and makes collections difficult. In an article in *People's Daily*,<sup>(6)</sup> Bai Zhongren, vice-dean of the Tsinghua university management school, said social contributions – employers' and employees – amounted to 40 percent of salary, was too high. He suggested that the government injects more funds into the social security system so as to reduce pressure on firms and increase employees' disposable income, so as to boost consumption. Bai does not, however, favour financing the system through taxes but rather by tapping the profits amassed by state enterprises, especially those in monopoly situations.

However, the Human Resources and Social Security Ministry holds that 20 percent is a "reasonable" level, arguing that according to annual statistics, salaries grow by an average 15 percent in 2009. Contributions are based on previous year's incomes. But in the case of the self-employed and those in flexible jobs, salaries have risen by 20 percent on average. The ministry has said 8 percent would come from an insured person's account (*geren zhanghu jijin*) and 12 percent from "communal funds" (*tongchou jijin*). Thus, this category of people would contribute less to the communal fund that employees in enterprises whose salaries would not have risen as much. An article in *Workers*

5. In France, for instance employers make contributions set at 12.8% for health insurance and 4% for unemployment, variable amounts for work-related accidents and 8.3% for pensions (additional employers' contributions towards pensions, different for executives and non-executives, is around 12%)

6. "Researcher recommends lowering social contributions and tapping state enterprises' profits," *People's Daily*, 16 August 2010.

7. "Annual rise in base for calculating social contributions: big pressure on those with low incomes," *Workers Daily*, 23 August 2010.

*Daily*<sup>(7)</sup> quotes Beijing employees as saying that their contributions are too heavy a burden, especially as their salaries have not risen by as much as official statistics claim.<sup>(8)</sup>

Finally, the ministry acknowledges that many enterprises fiddle their accounts by declaring lower salaries than paid out, in order to reduce their contributions. Zheng Bingwen, an expert on pension funds at the Chinese Academy of Social Sciences (CASS), blames high premiums for leading to fraud.

Thus the premiums for health, unemployment and accident risks appear pose not too great a problem, but the higher retirement premiums remain a butt of debate. Lacking consensus, no premiums are set in the law, neither for retirements nor for other schemes.

Moreover, the wide-ranging debate on retirement age and number of years of service also weighed on Chinese lawmakers. Rules have gradually extended coverage initially to workers and employees in urban areas. In order to receive a retirement pension (*jiben yanglao baoxian daiyu*), one has to have contributed for at least 15 years and attained the legal age. A 1978 law set the retirement age at 60 for men and 50 for women (55 for women officers).<sup>(9)</sup> As of now, anyone who has contributed for fewer than 15 years is ineligible for a pension.

China's old-age insurance for the population that is covered, is based on redistribution – those still active contribute towards those retired. Fixing the minimum number of years of contribution helps ensure the financing of the system. However, such a minimum number of years could diminish interest in the system among the self-employed, migrant workers and those in precarious situations. Therefore, the government has rightly signalled its intention to expand the section of the population covered. In the absence of a unified system, some local governments have adopted more flexible, experimental measures, to cover those who may not have contributed long enough: one solution is for them to “buy” the number of years of contribution needed to reach 15 and thus benefit from retirement pensions; the other is to remit at one go the credit calculated for the individual account. Such local experiments have been intended for integration in the law. Besides, those contributing for fewer than 15 years could also receive a pension calculated in proportion to the number of years they did pay in.<sup>(10)</sup> Such a measure could encourage a larger number of people to join the system. In 2009, there were more than 211 million migrant workers, accentuating the pressure to coverage for as large a number as possible of this population, which has so far benefited from

no protection. Nevertheless contributions for 15 years minimum has been inscribed into law.

But some scholars question the long term viability of the system, much as Zheng Bingwen does: 15 years of contributions would certainly be insufficient, especially if further discounts were to be accorded. Moreover, when a white paper on “China's Human Resources” was published on 10 September 2010, Vice-Minister Wang Xiaochu said the government was considering a report on the legal age of retirement. *Caixin* carried the proposal of a scholar within the ministry for a progressive push back (one year more every three years so as to end up with a legal retirement age of 65 by 2030)<sup>(11)</sup> so as to generate sufficient pension funds in the context of an ageing population.<sup>(12)</sup> This announcement met with indignation on the Internet. Whether or not the proposal is being studied, a ministry official said a few days later in *People's Daily* that pushing back the retirement age was not an urgent issue, the priority being the implementation of the entire system.

For old age pensions, the major advance in the law concerns the general organisation of the branch that is gradually spreading nationwide (*quanguo tongchou*). Other branches will in due course be raised to provincial levels and then to the national level according to a timetable to be fixed later. Such unification of the system would allow an insured person who has worked in different provinces to accumulate the years of contributions so as to draw a retirement pension even while living in a province where he or she never worked. As of now, the system is still fragmented and discourages the mobility of the insured: it has pitted rich provinces against the poorer ones. Poorer provinces have to fix the contribution levels extremely high so as to ensure their accounts balance, while rich ones hosting workers from other regions can afford to fix it at a low level because it would be paying out a smaller amount as retirement pensions. A national level management of pensions would imply the fixing of a single contribution level. Rules on implementing the law would

8. The base salary for fixing contributions – the assessment level (*jiaofei jishu gongzhi*) – is reviewed annually city-wise and province-wise. The ceiling for contributions is total calculated on the basis of 300 percent of basic salary and the minimum is the total calculated on the basis of 60 percent of basic salary.

9. Those in difficult occupations were entitled to pensions five years earlier.

10. The central government's plan was that eventually the replacement rate of pensions be fixed at 60 percent of last salary earned.

11. This proposal seemed to indicate that the retirement age would then be the same for men and women.

12. “Experts say China has to gradually push back the retirement age,” *Caixin*, 15 September 2010.

have to confront the horse-trading needed for unifying the system.

Finally, the impossible harmonisation of public and private sectors reverberates at the very heart of public institutions. *Caijing* notes that one of the most problematic issues behind the delays in approving the law was that of integrating officials into a single social security system. During the third reading of the draft law, only officials and personnel deemed as officials could keep their own social security system. However, those working in quasi-public establishments (*shiye danwei*),<sup>(13)</sup> who were not deemed officials, voiced their displeasure. There are more than 19.4 million non-official personnel and those not belonging to the officialdom in quasi-public establishments, or about two third of the personnel covered by the generalised social security system, alongside private sector employees. They wish to be treated on par with officials. Another third are classed as officials, their pensions being paid directly by the state: they have no need to contribute. Moreover, once retired, they could receive 70 to 100 percent of their salary. Private sector employees receive about 60 percent of their salaries. Their opposition to the reforms is understandable. Once again, the law fails to sort things out: it retains a system that is advantageous for officials and has postponed hard decisions.

It is thus clear that while the law has been passed, discords remain none less sensitive than the other. Meanwhile terms such as legal retirement age or institution in charge of collection figure in the text, with no attempt yet at specifying the age or the institution. Decisions have been kept aside for central government regulations so as not to further heighten discord. Some observers are disappointed that the law is too vague and evades crucial issues despite having been debated threadbare. Lawyer Guo Xinchang, interviewed by *Workers Daily*,<sup>(14)</sup> said there was much that remained disjointed in the running of the social insurance system. Even though it fails to solve all the problems, it nevertheless constitutes a legal framework on which to continue building. Guo said the law would reassure the insured dousing their fear that “having taken care of the previous generation they would themselves have nobody to take care of them when needed”. Guo indirectly raises the condition required to ensure the entire population accepts the new social insurance system so as to ensure universal coverage: the Chinese have to repose their faith in the government on this matter. •

#### Glossary

feigaishui	費改稅
geren zhanghu jijin	個人賬戶基金
getihu	個體戶
jiaofei jishu gongzi	繳費基數工資
jiben yanglao baoxian daiyu	基本養老保險待遇
linghuo jiuyezhe	靈活就業者
quanguo tongchou	全國統籌
shebao bumen	社保部門
shehui baozhang zhidu	社會保障制度
shehui baoxian fa	社會保險法
shiye danwei	事業單位
shuiwu bumen	稅務部門
tongchou jijin	統籌基金
tongyi zhengshou	統一征收
tuoguan	托管
xinxing nongcun hezuo yiliao	新型農村合作醫療
weisheng bumen	衛生部門
yidi jiuyi	異地就醫

• Translated by N. Jayaram

13. Quasi-public establishments are those providing a public service, financed by the state or through state means. Placed under administrative supervision, they are legal entities with no commercial objectives and their resources are not drawn from commercial means. Generally they provide health, educational, cultural or scientific services.

14. “Annual rise in the assessment of social insurance contribution, too much pressure on those with low incomes,” *Workers Daily*, 23 August 2010.